PRIMER

Indiana State Teachers' Retirement Fund

For active and retired members

Volune XIV — Spring Issue - July 2003 — Number 1

INSIDE THIS ISSUE

A GOOD THING GETS BETTER

The IRS has approved one of the most significant benefit opportunities available to Indiana teachers and public employees.

Until 2001, the contribution to a member's Teachers' or Public Employees' Retirement Fund was set at a mandatory rate of 3%. Beginning in 2001, the Indiana Legislature enacted a provision allowing retirement fund members to make voluntary contributions in addition to the mandatory 3% contributions. A teacher could have up to 10% of income deducted from their paycheck on an after-tax basis and have the dollars added to their annuity savings account.

Beginning in September 2003, qualifying members, who have five years of service, may make these voluntary contributions on a pre-tax basis. Those who qualify and elect to participate immediately enjoy several benefits.

- Dollars contributed on a pre-tax basis are not subject to federal, state or local tax; nor are the dollars subject to FICA (Social Security) or Medicare withholding.
- Participants realize a reduction in taxable income each payday as well as at year-end.
- Earnings on deposits are tax deferred.
- Dollars are distributed and thus, taxable, at retirement when income is often reduced, resulting in a lower applicable tax bracket.
- The allocation of pre-tax dollars mirror the allocation already elected for mandatory (3%) contributions.

In order to maintain pre-tax status on voluntary contributions, the IRS has imposed several restrictions.

- An election to participate is irrevocable unless the member changes employers.
- The amount (percentage) cannot be changed or stopped.
- Only employees with at least five years of service are eligible to participate. Further, an employee has only two years from the date of eligibility to decide whether to participate or not.

Additional information will be distributed to employers and employees throughout this summer on the procedures for taking advantage of this significant opportunity.

- In order to participate, the employing School Board must adopt a prototype enabling resolution. Members will want to make sure their employers are aware of the opportunity to provide their employees with this important benefit and that their Board has signed the appropriate paperwork.
- Members wishing to participate must complete an irrevocable payroll deduction authorization form. Upon completion, the form will be sent to TRF for service verification.

To learn more, visit the TRF website regularly at www.in.gov/trf.

Board of Trustee's set new rate for Guaranteed Fund

Effective July 1, 2003, the annual rate of return for the Guaranteed Fund will be 6.75% per annum. The Fund's Board of Trustees determined this change at their June 3, 2003 meeting. The Guaranteed Fund is the only investment option that ensures a quarterly return.

WEB NEWS

Retirement Calculator *
TRF offers three methods to estimate monthly retirement benefits.

1. Method 1 - Enter date of birth, SSN, and TRF# to get an estimate of your monthly retirement income. The estimate is based on the last quarterly statement.
2. Method 2 – This method is based on information a member provides. The member enters what he thinks his average salary, account balance, service and retirement date will be.
3. Method 3 – This is also based on what the member enters. It also includes the social security income equalization option (A4 option).

Quarterly Statement *
Now members can view quarterly statements on-line. Date of birth, SSN, and TRF# are required to view statements. Most of TRF's forms are now available on-line.

Purchase Service Credit Estimator
Get an on-line estimate of the cost to purchase service. Enter your TRF number and current contract salary.

Schedule an Appointment
Schedule counseling appointments on-line. This offers the choice of reserving a time for either a face-to-face meeting in the Indianapolis TRF office or a telephone appointment. Both types of appointments offer retirement counseling with one of TRF's experienced benefits professionals.

Direct Deposit Vouchers *
Members receiving benefits via direct deposit can view their current voucher on-line.

Retired Members' Group Health
Get the latest facts about health coverage, including premiums and deductibles.

Current Performance of the Annuity Savings Account
Quarter to date market value is now available on-line and updated daily.

Publications
All of TRF's recent publications are now on-line.

Calendar
An interactive calendar of TRF events, meetings and workshops is available on-line. The calendar can be searched by year, month and week. Past events are also archived and available for viewing.

Privacy Policy and Identity Theft Protection Information
Read the latest information from the Federal Trade Commission regarding identify theft. Also, learn the precautions necessary to prevent identify theft, and what to do if one becomes a victim.

* Denotes a secured site. The information is encrypted before being transmitted. Depending on your PC, one might get a pop-up window asking to accept a certificate for the browser. To proceed, click yes.

RETIREMENT COUNSELING

Over 2000 teachers are expected to retire after the end of the 2002-2003 school year. In order to ensure their applications are processed efficiently and their benefits begin as soon as possible, appointments for one-on-one counseling sessions will not be accepted between June 30, 2003 and September 19, 2003.

If you are retiring in 2004 and would like a personal retirement interview, please call to schedule an appointment during the 2003-2004 school year. Telephone interviews may also be arranged for those not wishing to travel to the TRF office.

NEWLAND'S NOTES

Bob Newland has been with the Fund for 18 years. He began as the Investment Coordinator and is currently the Deputy Director for Investments. He has an undergraduate degree in Political Science from Indiana University, and an MPA with a Finance concentration from American University. He also has certifications in financial asset management as well as employee benefits.

In a prior issue, I wrote about the two components of a teacher's retirement benefit: the annuity savings account and the defined benefit. I thought I'd take this opportunity to expand a little on the defined benefit.

Contributions and (hopefully) subsequent investment earnings normally fund a defined benefit pension plan. Obviously, it can only enjoy these hopeful investment earnings if it has contributions to invest, and these normally come from the employer. The presence of these funds helps to ensure that a benefit will be paid when it comes due.

The Indiana Teachers' Retirement Fund operates a different kind of defined benefit plan. For most of the plan, it uses what is known in the industry as a "pay-as-you-go" approach. The State essentially makes an annual contribution that is equal to the annual benefits that are paid; however, this means that little is being saved to pay future benefits. This is similar to how Social Security operates. Current contributions pay for current benefits. There are two problems with this. First, there is no assurance that there will be enough money to pay the future benefits (because little is being saved). Second, it ignores the effect of inflation. Any future benefit increases must be absorbed by future contributions. The future obligation to pay these benefits is essentially being transferred to future generations.

The State of Indiana maintains that its status as a government entity addresses these problems. First, it is highly unlikely to go out of business (unlike a business entity), so it will be here to pay the benefits; and second, if need be, it can use its taxing authority to also assure payment of those benefits. While this may be true, this misses the opportunity of having investments fund those benefits instead of using contributions (which come from taxes). Again, future taxpayers will be responsible for making these future contributions.

The amount of money the Teachers' Retirement Fund should have (had it been normally funded), is $8.5 billion. This is what is known as an unfunded liability: the present value of future benefits. It is probable that this unfunded liability will grow to over $9 billion over the next two years because the State will be paying about $400 million less than its regular contribution. This means that the Fund will have to dip into its reserves (the Pension Stabilization Fund), to make up for this shortage.

This unfunded liability is real. Current annual benefits are approximately $435 million. By 2017, these annual benefits are projected to be about $1 billion. By 2027, they are projected to be $1.3 billion.

Pension Fund Dollars Used to Support State's Budget

The budget the General Assembly passed in April will allow the use of $380 million from the Teachers' Pension Fund to offset the cost of financing government services through the next two years. This action decreases the normal obligation the State pays to teachers' pensions.

The usual $60 million of lottery money that helps build reserves to pay future pension payments was also diverted from the pre 1996 Fund. Instead, those funds were shifted to cover school-operating costs for pension payments for members of the 1996 Fund.

Because of both legal and moral obligations, there is little danger that pensions won't be paid. Taking money from the pension stabilization account, which was created in 1995, will leave less money in the bank to cover future retirement checks. This move will cause larger State payments in future years.

Even with current Retirement Fund assets totaling over $6.1 billion, the State of Indiana has an unfunded liability to the pension fund of almost $8.5 billion.

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Contacting Your Fund

Direct Dial (317) 232-3860

Toll-Free (888) 286-3544

- Benefit Check Deductions
- Benefit Check Health Insurance
- Deductions
- Counseling
- Death Reports
- Direct Deposits
- Lost Checks
- Service Credit
- Withdrawals

Other Services:

Investments......... (317) 232-3868
TDD/TTY.............. (317) 233-3306
Director's Office... (317) 232-3869
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Visit our site on the World Wide Web at:
http://www.in.gov/trf

You can send our office an electronic mail message at: **trf@state.in.us**

Indiana State Teachers' Retirement Fund

NEWS FOR RETIREES

The 2003 General Assembly approved cost of living increases for retired teachers (or survivors). Payable after December 31, 2003, pension benefits will increase as follows:

1% for those retiring after July 1, 1996 and before July 2, 2001
2% for those retiring after July 1 1978 and before July 2, 1996
3% for those retiring before July 2, 1978.

This increase will be reflected in the payment that you receive February 1, 2004. Unfortunately, due to market experience and other circumstances, there will be no 13th check for Fiscal Year 2003-2004.

Another Great Change

After years of planning, designing, testing and re-testing, the Fund made the final conversion to the long awaited SIRIS (State of Indiana Retirement Information System) computer operations system. Effective July 1, benefit checks were processed and mailed by SIRIS. Input into the retirement process has begun, with checks to new retirees being generated by the new system.

While each of its many processes have had multiple trial runs, it is inevitable in a total conversion for some glitches to occur. Please feel free to share your comments with us and to advise us promptly of any problems you may have. We ask your patience and understanding as we proceed. Be assured that these changes are being made for greater efficiency and expediency in meeting the members' needs.

The *Primer* is published by the Fund to update members on Fund news and to give general information about Fund benefits. Specific information is available in the Active Member's Handbook, the Retiring Member's Guidebook or by contacting the office.

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Newsletter Designer: Amy Maynard

Newsletter Printer: Personix – Another Fiserv Resource